

**POOR GOVERNMENT OVERSIGHT OF  
ANHAM AND ITS SUBCONTRACTING  
PROCEDURES ALLOWED QUESTIONABLE  
COSTS TO GO UNDETECTED**



**SIGIR 11-022**  
**JULY 30, 2011**

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# SIGIR

Special Inspector General for IRAQ Reconstruction

## Summary of Report: SIGIR 11-022

### Why SIGIR Did This Study

Over the past eight years, billions of dollars in contracts have been awarded to support relief and reconstruction activities in Iraq. The Congress has raised questions about many of these contracts and particularly questioned subcontracting actions. This report examines subcontracts associated with a contract awarded in September 2007 to Anham, LLC (Anham) to provide for the receipt, storage, and onward movement of supplies and equipment needed to reconstitute the Iraqi Security Forces and reconstruct the country's infrastructure. The contract had obligations of approximately \$119.1 million, of which Anham subcontractors provided at least \$55 million in supplies and services.

SIGIR's objectives for this report were to determine (1) the adequacy of government oversight of Anham and its subcontracting procedures and (2) whether Anham's costs under the contract are fair and reasonable.

### What SIGIR Recommends

SIGIR recommends that the Office of the Secretary of Defense change its guidance to contracting officers and give them responsibility, in cooperation with DCAA, for reviewing subcontract prices charged to the government to ensure they are reasonable.

SIGIR also recommends that the Commander, U.S. Central Command: 1) determine whether Anham and its subcontractors are affiliated; 2) review all vouchers submitted by Anham for this contract to ensure that prices are fair and reasonable; and 3) initiate a systematic review of billing practices on all Anham contracts in Iraq and Afghanistan.

SIGIR also recommends that the Director, Defense Contract Management Agency, conduct a new contractor purchasing system review of Anham.

### Management Comments and Audit Response

The Defense Contract Management Agency and the U.S. Central Command's Joint Theater Support Contracting Command agreed or partially agreed with SIGIR's recommendations.

July 30, 2011

## POOR GOVERNMENT OVERSIGHT OF ANHAM AND ITS SUBCONTRACTING PROCEDURES ALLOWED QUESTIONABLE COSTS TO GO UNDETECTED

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### What SIGIR Found

SIGIR found significant weaknesses in the government's oversight of Anham's business systems and other contract administration functions, which left the government at significant risk of paying unreasonable costs. In four key Anham business systems that we reviewed, SIGIR found the following:

- DCAA reviewed and approved Anham's accounting system
- DCAA did not review Anham's estimating system
- DCAA reviewed Anham's billing system and found significant weaknesses
- DCMA reviewed and recommended approval of Anham's purchasing system despite identifying significant gaps in documentation on the degree of price competition obtained. DCMA, also did not ask important questions about close and/or affiliated relationships that Anham may have with some of its subcontractors
- Contract oversight by the Contracting Officer Representatives (CORs) was weak in that the CORs did not compare vouchers to receiving documents, signed for delivery of goods without verifying that the goods were delivered, and allowed Anham employees to sign for receipt of \$10 million in goods.

SIGIR conducted a limited incurred cost review of Anham, questioning almost 39% of the costs (\$4.4 million) reviewed either because we question whether the costs are fair and reasonable, or because they were not properly documented. Some of the costs SIGIR questions result from questionable competition practices, inappropriate bundling of subcontractor items and close working relationships or possible ownership affiliations between Anham and certain subcontractors. For example, SIGIR believes Anham may have less than an *arms-length* relationship with six subcontractors who were awarded approximately \$55 million in purchases and services under the reviewed contract. As a result of the multiple problems identified in this report, SIGIR is questioning all the costs on this contract.

Some of these issues could have been identified during an incurred cost review. A contractor is required to submit to DCAA its incurred costs for the year, and DCAA determines if the contractor's costs are allowable, allocable, and reasonable. However, DCAA has not yet conducted an incurred cost review on Anham and is several years behind in meeting its overall incurred cost review requirement for Iraq contracts.



## **SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

July 30, 2011

MEMORANDUM FOR SECRETARY OF DEFENSE  
COMMANDER, U.S. CENTRAL COMMAND  
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Poor Government Oversight of Anham and Its Subcontracting Procedures  
Allowed Questionable Costs To Go Undetected (SIGIR 11-022)

We are providing this audit report for your information and use. The report discusses issues related to the oversight of an Iraq relief and reconstruction contract and the subcontracts awarded to support that contract. Specifically, the Special Inspector General for Iraq Reconstruction looked at a contract awarded for warehouse and distribution services at the Port of Umm Qasr and Abu Ghraib. We performed this audit in accordance with our statutory responsibilities contained in Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. This law provides for independent and objective audits of programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Iraq and for recommendations on related policies designed to promote economy, efficiency, and effectiveness, and to prevent and detect fraud, waste, and abuse. This audit was conducted as SIGIR Project 1009.

The Defense Contract Management Agency and U.S. Central Command provided written comments on a draft of this report, which SIGIR addressed as appropriate. Those comments are printed in their entirety in Appendix I and J.

We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn Furbish, Assistant Inspector General for Audits (Washington, D.C.), (703) 604-1388/ [glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil), or Jason Venner, Principal Deputy Assistant Inspector General for Audits (Washington, D.C.), (703) 607-1346/ [jason.venner@sigir.mil](mailto:jason.venner@sigir.mil).

Stuart W. Bowen, Jr.  
Inspector General

cc: U.S. Secretary of State  
Commanding General, U.S. Forces-Iraq  
Director, Defense Contract Audit Agency

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## Poor Government Oversight of Anham and Its Subcontracting Procedures Allowed Questionable Costs To Go Undetected

SIGIR 11-022

July 30, 2011

### Introduction

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Since 2003, the United States Government has awarded billions of dollars to support relief and reconstruction services in Iraq. A significant amount of the contracted work was, in turn, subcontracted to lower-tier firms. The term “subcontractor” in this report refers to any person or organization that furnishes supplies or services under a prime contractor. Oversight of subcontractors in contingency operations has been a long-term concern and the subject of hearings before, among others, the Senate Homeland Security and Government Affairs Committee, the House Congressional Committee on Oversight and Government Reform (Subcommittee on National Security and Foreign Affairs)<sup>1</sup>, and the Commission on Wartime Contracting in Iraq and Afghanistan.<sup>2</sup>

This report examines subcontracts associated with a contract awarded in September 2007 by the former Joint Contracting Command–Iraq/Afghanistan to Anham, LLC (Anham)<sup>3</sup> to provide for the receipt, storage, and forward movement of supplies and equipment needed to reconstitute the Iraqi Security Forces and reconstruct the country’s infrastructure. The contract had a ceiling price of \$300 million and, at its conclusion, obligations of approximately \$119.1 million. Anham subcontractors provided at least \$55 million of supplies and services under this contract. Both the Iraq Security Forces Fund (about \$91.0 million) and the Army’s Operations and Maintenance Fund (about \$28.1 million) funded this contract. Anham holds contracts for goods and services with the U.S. government totaling about \$3.9 billion (see Appendix C).

### Background

On September 26, 2007, the Joint Contracting Command–Iraq/Afghanistan (JCC-I/A), now known as the U.S. Central Command (CENTCOM) Joint Theater Support Contracting Command, awarded a cost-plus indefinite-delivery, indefinite-quantity contract to Anham to operate and maintain two strategically located warehouse and distribution facilities—one at the town of Abu Ghraib near Baghdad International Airport and the other at the Port of Umm Qasr.

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<sup>1</sup> “*Subcontracting in Combat Zones: Who Are Our Subcontractors*,” House Committee on Oversight and Government Reform, Subcommittee on National Security and Foreign Affairs, June 29, 2010.

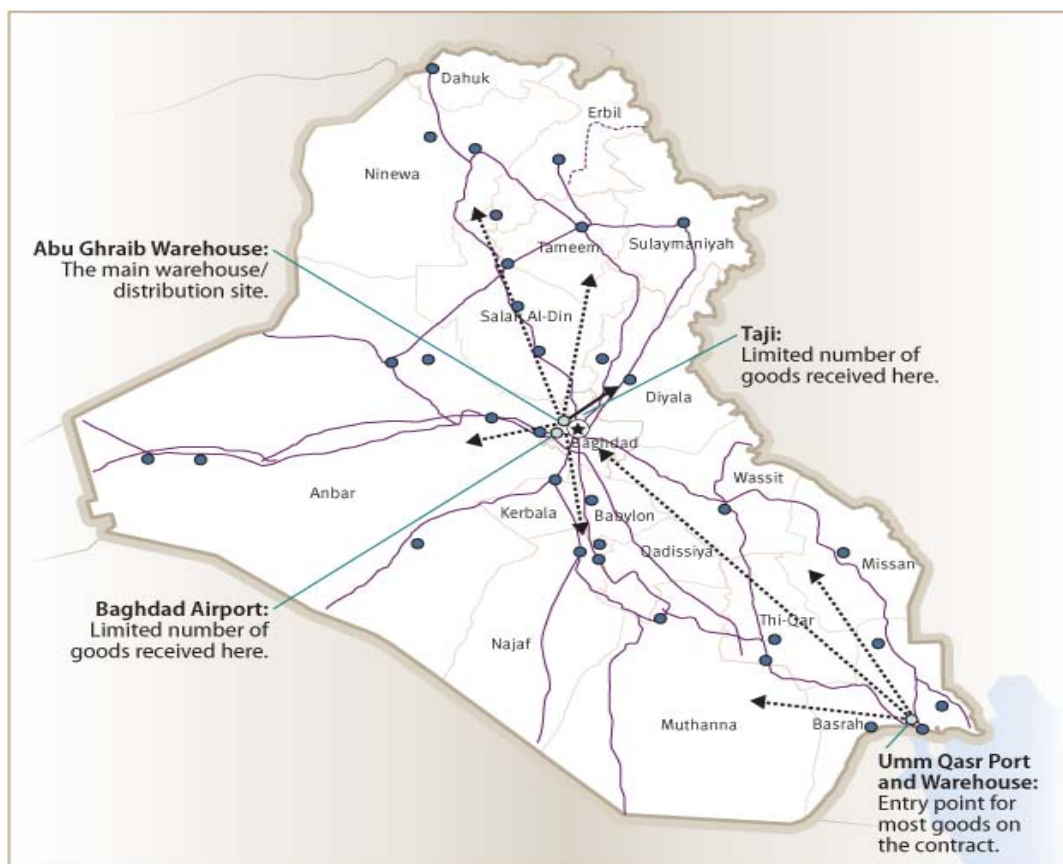
<sup>2</sup> “*Subcontracting: Who’s Minding the Store*,” The Commission on Wartime Contracting in Iraq and Afghanistan, July 26, 2010.

<sup>3</sup> Anham, LLC appears to be the same entity as Anham FZCO, which is incorporated in Dubai, United Arab Emirates in the Dubai Airport Free Zone. In communications with SIGIR, Anham officials alternately referred to the company as Anham, LLC, Anham FZCO, and Anham, LLC FZCO. Company officials later clarified that there is only one company, and it is called Anham FZCO. However, all signed contract documents on this contract list the name Anham, LLC. For simplicity, hereafter we refer only to Anham.

The contract required Anham to provide all resources necessary to operate and maintain the warehouses, including logistics, management, and life support. These warehouse and distribution sites received, held, repackaged and redistributed supplies and equipment to Iraqi government ministries. The U.S. military's ultimate goal was to transfer operational control to the Iraqi military. While the contract stated that some services could be used to move materiel for projects supporting U.S. military forces, coalition and/or multinational forces, and other governmental/non-governmental agencies, U.S. on-site commanders stated that almost all goods shipped through these facilities went to the Government of Iraq.

On September 29, 2007, the first task order was issued to operate and manage the two warehousing and distribution facilities. Later, on April 1, 2008, a second task order was awarded to operate and maintain a smaller satellite distribution facility at Taji. In addition, according to contracting officials, a limited number of goods were also received at the Baghdad International Airport. Figure 1 shows the locations of the two warehouses and two smaller distribution locations.

**Figure 1—Location of Warehouse and Distribution Points on the Anham Contract**



*Source: Contract documents, site visits, and interviews with site commanders.*



Anham was to procure necessary resources such as communications and information technology systems, trucking services, and transportation assets (including providing a variety of trucks and heavy duty transport equipment), fuel, and life support for staff and other services.

Altogether, the contract had six task orders. Task orders are the vehicles the government uses to authorize a contractor to spend money on specific cost-plus contractual functions that define the scope of work to be performed. As of June 29, 2011, \$119.1 million was obligated against these task orders, of which \$113.4 million has been disbursed. Table 1 shows the six task orders and the total obligations and disbursements for each task order.

**Table 1—Task Orders Issued on the Anham Warehousing Contract as of June 29, 2011 (\$ millions)**

<b>Task Order</b>	<b>Date</b>	<b>Description</b>	<b>Total Obligations</b>	<b>Total Vouchered Costs</b>
1	9/26/07	Operate and manage the Umm Qasr and Abu Ghraib warehouses and provide trucking to move supplies throughout Iraq	\$78.7	\$78.7
2	4/1/08	Take over management of a satellite warehouse	0.5	0.5
3	3/30/08	Transfer materials from the Ramadi Internment Facility to Abu Ghraib warehouse	0.6	0.6
4	1/22/09	Implement option year one for Task Order 1	26.2	24.0
5	1/22/09	Implement option year one for Task Order 2	0.7	0.7
6	1/20/10	Implement option year two for Task Orders 1 and 2	12.4	8.9
<b>Total</b>			<b>\$119.1</b>	<b>\$113.4</b>

**Note:**

Numbers are affected by rounding.

*Source: Contract documents and cost data from the U.S. Army Corps of Engineers, Finance Center.*

Task Order 1 authorized funding for Anham to operate and manage the two warehouses at Umm Qasr and Abu Ghraib. Task Orders 4 and 6 each authorized one-year extensions to continue managing the two warehouses authorized under Task Order 1. Task Order 2 authorized funding to manage an additional warehouse at Taji, and Task Order 5 authorized a one-year extension of those operations. Finally, Task Order 3 authorized funding for a transfer of materials from an internment facility at Ramadi to the Abu Ghraib warehouse. In June 2010, all remaining work under the contract, except for the Taji operations, was terminated for the U.S. government's convenience. In July 2010, the Abu Ghraib warehouse was transferred to the Government of Iraq.

The Anham contract was negotiated as a cost-plus contract where the costs incurred by Anham are reimbursed by the government. Cost-plus contracts are inherently more risky for the U.S. government than fixed-price contracts where the costs are clearly determined upfront, and cost overruns above the determined price are the responsibility of the contractor. Cost-plus contracts carry more risks because the costs are not known at the outset. Therefore, the Federal

Acquisition Regulation (FAR) requires government officials to carefully monitor contractor performance to ensure, among other things, that the prices charged are fair and reasonable.

An indefinite-delivery, indefinite-quantity contract is used when the quantity of goods or services to be provided under the contract are not specifically known at the time the base contract is awarded, beyond a minimum and maximum quantity. Task orders are awarded under such a contract to define the scope of work and obligate funds. An indefinite-delivery, indefinite-quantity contract may also stipulate the cost or pricing arrangement in accordance with FAR Part 16. The pricing arrangements for Task Orders 1 and 2 of the warehouse and distribution contract were originally cost-plus award fee but were changed to cost-plus fixed fee. Task Orders 2, 4, 5, and 6 were cost-plus fixed fee. Because Task Order 3 was for a defined piece of work, it was awarded as a firm fixed-price task order. Cost-reimbursement pricing arrangements are suitable for use only when contract performance uncertainties do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.

All of the purchases from Anham subcontractors were fixed-price purchases. Anham added its management and administration fees to the cost of the purchases.

## **Government Agency Roles and Oversight Responsibilities**

Government program, contracting, contract administration and audit agencies, as well as Anham, played important roles in monitoring and overseeing this contract. An important role of government contract administration is evaluating the prime contractor's internal controls to make sure that they are consistent with FAR requirements and produce fair and reasonable prices for the government. Such assessments are crucial because it is the prime contractor's responsibility to manage its subcontractors, and prime contractors generally rely on their business systems for this purpose. Moreover, a contractor's business systems establish its internal controls.

The government also conducts incurred cost audits to examine the appropriateness of a contractor's cost representations. Government assessments of the adequacy of a prime contractor's business systems can occur either before or after a contract is awarded, and the weaknesses identified can affect the level of contract monitoring required after a contract is signed. For example, if an assessment identifies weaknesses in a prime contractor's purchasing system, the Defense Federal Acquisition Regulation Supplement (DFARS) allows the Administrative Contracting Office (ACO) to initiate special reviews of the weaknesses.<sup>4</sup> Finally, incurred cost audits, which are generally performed a year after contract award, allow the government to express an opinion as to whether incurred costs are reasonable, applicable, and allowable.

### ***Program Office***

The Multi-National Force–Iraq was the program office on this contract and established the requirement for it. On January 1, 2010, the Multi-National Force–Iraq transitioned into U.S. Forces–Iraq. Multi-National Force–Iraq, and later, U.S. Forces–Iraq supplied the on-site commanders at Abu Ghraib and Umm Qasr as well as the Contracting Officers' Representatives (CORs).

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<sup>4</sup> DFARS 244.304 Surveillance; and FAR 44.304.

### ***Contracting Office***

JCC-I/A awarded the contract and was responsible for its administration. The U.S. Central Command Joint Theater Support Contracting Command assumed JCC-I/A's responsibilities in July 2010, after the contract ended. Thus, its primary responsibility is to close out the contract.

FAR 1.602-2 states that Contracting Officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of a contract, and safeguarding the interests of the United States in its contractual relationships. This includes determining the reasonableness of costs charged to the government, ensuring that goods and services provided under the contract are received, and providing contractors' consent to subcontract. Contracting Officers may delegate those responsibilities to another office. Part (c) of Section 1.602-2 allows Contracting Officers to request and consider the advice of specialists in audit and other fields, as appropriate, in order to carry out their duties. Furthermore, FAR 42.202 allows Contracting Officers to delegate their responsibilities to an Administrative Contracting Office (ACO). Between September 2007, and the contract's end in July 2010, there were 15 different Contracting Officers assigned to the Anham contract.

### ***Administrative Contracting Office***

JCC-I/A assigned ACO responsibilities to DCMA. An ACO administers day-to-day activities following the contract award. For the Anham contract, DCMA accepted responsibility for property administration and quality assurance. JCC-I/A requested that DCMA also manage payment administration; however, DCMA declined to provide this service.

DCMA assigned CORs to assist in performing contract oversight responsibilities. The COR appointment letters for the Anham warehousing contract authorized the representatives to:

- accept for the government goods and services provided under the contract and verify that invoices (vouchers in this case) matched receiving reports
- verify Anham's performance of the technical requirements of the contract
- monitor performance and report any deficiencies
- resolve problems identified by users within the scope of the contract
- develop and implement a quality assurance surveillance process, and maintain adequate records

The ACO is also responsible for granting, withholding, or withdrawing approval of a contractor's purchasing system, a review which evaluates the efficiency and effectiveness with which the contractor spends government funds and complies with government policy when subcontracting.

### ***Contract Auditing***

FAR 42.101(b) designates DCAA as the DoD agency responsible for reviewing and approving vouchers for payment, and DCAA reviewed and approved costs on the Anham warehousing contract. DCAA receives vouchers directly from the contractor, provides provisional payment approval of vouchers found acceptable, and suspends payment of vouchers with questionable costs. In its provisional approval process, DCAA auditors review the vouchers to verify that indirect costs are computed using acceptable billing rates, that fees claimed are computed based

on contract requirements, that vouchers have been properly prepared and are mathematically accurate, and billed costs are reconciled to the contractor's accounting records. Once a voucher is provisionally approved, it is forwarded to the paying agent designated in the contract for payment. If rejected, DCAA returns the voucher to the contractor, in this case Anham, for correction as quickly as possible, but not later than five working days after receipt.

DCAA also performs other reviews including incurred cost audits and price proposal evaluations. A contractor is required to submit to DCAA its incurred costs for the year, after which DCAA determines if the contractor's costs are allowable, allocable, and reasonable. DCAA evaluates the contractor's initial price proposals in support of Contracting Officer's decision-making process.

DCAA performs other pre-award and post-award audit functions in support of the Contracting Officer. For example, based on audit risk, DCAA may conduct audits of contractor estimating systems on a periodic basis. As part of that review, it evaluates the prime contractor's policies and procedures for ensuring the proposed subcontract costs are fair and reasonable.

### ***Oversight of Subcontractors***

According to the FAR, a prime contractor is responsible for assuring that it obtains competition for subcontractor procurements to get a fair and reasonable price in the same way that a government contracting officer is required to obtain a fair and reasonable price before awarding a contract. Nevertheless, this does not relieve the government of any oversight responsibility. Because close business relationships may exist between a contractor and its subcontractors, government policy guidance has been developed for government officials to pay attention to these types of relationships.

The process for overseeing subcontractors is discussed in a number of government regulations and manuals including the FAR, the DFARS, and the DCAA Audit Manual. On July 26, 2010, the DCAA Director testified before the Commission on Wartime Contracting in Iraq and Afghanistan and provided a clear description of the process. In his prepared statement before the Commission, the Director said:

The FAR requires contracting officers to purchase supplies and services from responsible sources at fair and reasonable prices. The contracting officer is responsible for determination of price reasonableness for the prime contract, including subcontracting costs (FAR 15.404-3(a)). DCAA often provides the necessary audit support to the contracting officer during both the pre-award and post-award contract stage in the evaluation of prime contract costs that include subcontract costs.

FAR 42.202(e)(2) clearly states that it is the prime contractor's responsibility to manage its subcontractors. Prime contractors generally rely on their estimating, purchasing and billing systems as a means to manage their subcontracts. As noted in the Commission's [Commission on Wartime Contracting] interim report (June 2009), adequate contractor business systems are the first line of defense against waste, fraud, and abuse.

All DoD prime contractors are responsible for having an acceptable estimating system that consistently produces well-supported proposals acceptable as a basis for negotiation

of fair and reasonable prices (DFARS 215-407-5-70(b)). One key characteristic of an adequate estimating system is the contractor's ability to determine through review and analysis, the reasonableness of proposed subcontract prices (DFARS 215.407-5-70(d)(2)(xv)). The proposal phase of a contract award involves the prime contractor's estimating and purchasing systems working together to prepare an adequate estimate of cost or price. Generally, purchasing system processes identify responsible prospective subcontractors and vendors from which subcontract proposals are obtained. The estimating and purchasing systems work in conjunction to conduct and document analysis of the subcontractor proposals to ensure the awarded subcontract price is fair and reasonable (represents the best value for the government), regardless of whether the contemplated subcontract is sole-source, competitively awarded, or for a commercial item. After contract award, the contractors [sic] billing system works in conjunction with the purchasing system to ensure only those subcontract costs which are eligible for payment (that is, allocable, allowable, and reasonable, and in accordance with contract terms and conditions) are included in the prime contractor's billings to the government.

The FAR also provides additional guidance to Contracting Officers on the need to review the relationship between prime contractors and their subcontractors. Where an "affiliate" relationship exists, the Contracting Officer is expected to pay closer attention to the contractor's activities. To clarify any such relationship, Contracting Officers are expected to ask questions about contractor and subcontractor affiliation during a Contractor's Purchasing System Review. DCMA normally conducts these reviews for DoD in accordance with FAR Part 44. Subpart 44.202-2, for example, states that the Contracting Officer and/or the ACO should give "particularly careful and thorough consideration" when "close working relationships or ownership affiliations between the prime contractor and subcontractor or vendor may preclude free competition or result in higher prices." "Affiliates" means business concerns or individuals if, directly or indirectly, (1) either controls or can control the other, or (2) a third party controls or can control both. Both of these subparts highlight the potential risk of overcharges by affiliates when there is less than an *arm's-length* relationship with the prime contractor.

## Objectives

SIGIR's objectives for this report were to determine (1) the adequacy of government oversight of Anham and its subcontracting procedures and (2) whether Anham's costs under the contract are fair and reasonable.

For a discussion of the audit scope and methodology and a summary of prior coverage, see Appendix A. For a list of Pioneer Iraqi General Trading Company (one of Anham's subcontractors) costs for items compared to its competitors, see Appendix B. For the total value of Anham's contracts in Afghanistan and Iraq, see Appendix C. For an advertisement of the Giant Voice Mobile Unit required in performance of the contract, see Appendix D. For Pioneer's vouchers and market comparison, see Appendix E. For questioned costs on leased equipment, see Appendix F. For a list of abbreviations used, see Appendix G. For the audit team members, see Appendix H. For DCMA's management comments, see Appendix I. For CENTCOM's management comments, see Appendix J. The SIGIR mission and contact information, see Appendix K.

## **Weak Government Oversight Resulted in Significant Pricing Risks**

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SIGIR found significant weaknesses in the government's oversight of Anham business systems and other contract administration functions. These weaknesses left the government at particular risk of paying unreasonable costs. The government's oversight of Anham's business systems was supposed to provide assurances that Anham was following FAR requirements and reduce risks of paying unreasonable prices for goods and services, but it broke down. Of the three key Anham business systems that DCAA was responsible for reviewing, DCAA approved only Anham's accounting system. DCAA did not review Anham's estimating system, and, while it did review Anham's billing system, it was done late into the contract and only then uncovered significant weaknesses.

DCMA reviewed and recommended approval of Anham's purchasing system but did so without asking important questions about close and/or affiliated relationships that Anham may have had with its subcontractors. Further, DCMA recommended approval of the purchasing system even though it was unable to find documentation of price analysis in any of the cases that it reviewed. According to DCMA officials, they have changed their approach to performing purchasing system reviews, and based on their current procedures, they would not have recommended approval of Anham's purchasing system. In addition, DCAA has not yet completed an incurred-cost review.

SIGIR also found that ACO and COR contract oversight was weak. The CORs did not compare all vouchers to receiving documents, as required, to assure that the government was billed for only delivered items, and the government allowed Anham employees to sign for receipt of \$10 million in goods, a major control problem.

### **DCAA Conducted Reviews of Major Business Systems, but Deficiencies Were Not Mitigated**

DCAA is responsible for reviewing three prime contractor business systems to ensure that subcontractor prices are fair and reasonable: the accounting system, the billing system, and the estimating system. DCAA reviewed Anham's accounting and billing systems, but the deficiencies found were not mitigated. DCAA has not conducted an estimating system review nor has it yet completed an audit of the costs incurred on the contract.

#### ***DCAA Determined That Anham's Accounting System Was Adequate***

DCAA conducted a review of Anham's accounting system in May 2008, and determined that Anham's accounting system was adequate for accumulating and billing costs under government contracts. However, according to the report, the procedures utilized in the audit program were not sufficiently robust to render an opinion on the key control activities and objectives that comprise a full-scope audit of internal controls.

### ***DCAA Reviewed Anham's Billing System Late and Found Significant Problems***

DCAA audited Anham's billing system controls in 2009, more than 20 months after the contract was awarded, to provide reasonable assurance that Anham consistently complied with established billing system internal controls to reduce the instances of overpayment. DCAA reviewed invoices paid in January and February 2009, and concluded that "Anham does not have adequate policies and procedures in place to assure that only billable costs/prices/fees applicable to U.S. government contracts are included in billings in accordance with applicable regulations and contract terms." DCAA tested selected paid vouchers submitted in 2008 and concluded that "reliance cannot be placed on [Anham's] procedures for the preparation of interim vouchers." As a result, DCAA rejected Anham's request for direct billing authority which would have allowed the company, for example, to submit vouchers directly to the U.S. Army Corps of Engineers' Finance Center for payment rather than through DCAA.

### ***DCAA Did Not Conduct a Review of Anham's Estimating System***

It is DoD policy that all contractors have estimating systems that consistently produce well-supported proposals acceptable as a basis for negotiating fair and reasonable prices (DFARS 215.407-5-70(b)). The decision to conduct an estimating system review is risk-based. However, DCAA did not review Anham's estimating system.

According to the DCAA Director's July 2010 testimony before the Commission on Wartime Contracting, estimating system reviews are an important part of the government's process for ensuring subcontractor costs are fair and reasonable. According to the Director:

[o]ne key characteristic of an adequate estimating system is one which addresses the prime contractor's responsibility for determining through review and analysis, the reasonableness of proposed subcontract prices (DFARS 215.407-5-70(d)(2)(xv)). The proposal phase of a contract award involves the prime contractor's estimating and purchasing systems working together to prepare an adequate estimate of cost or price. Generally, purchasing system processes identify responsible prospective subcontractors and vendors from which subcontract proposals are obtained. The estimating and purchasing systems work in conjunction to conduct and document analyses of the subcontractor proposals to ensure that the awarded subcontract price is fair and reasonable (represents the best value to the government), regardless of whether the contemplated subcontract is sole-source, competitively awarded, or for a commercial item.

The DCAA Contract Audit Manual identifies indicators of, or conditions that may cause significant estimating deficiencies. One such indicator is the "consistent absence of analytical support for significant proposed cost amounts." DCMA identified poor price analyses during its review of Anham's contractor's purchasing system (discussed in the next section of this report). However, as discussed below, DCMA did not conduct its contractor purchasing system review until 23 months into the contract and therefore DCAA would not have been aware of these contractor deficiencies.

### ***No Incurred Cost Audit Performed Yet***

Incurred cost reviews determine if costs claimed for reimbursement are reasonable, applicable to the contract, and in keeping with generally accepted accounting principles. According to DCAA, incurred cost audits are usually performed on a contractor fiscal year basis. An incurred cost audit has not yet been completed on this contract. When completed, this audit may disclose the questionable costs SIGIR identified in this report. However, the timing of the government's processes for identifying, assessing, and mitigating risks is occurring late into the life of the contract and increases the possibility that unreasonable costs may have gone undetected. In addition, DCAA is behind in conducting incurred cost audits. SIGIR believes that in a contingency environment where records can be hard to find and there is high turnover of contracting personnel, a large time-gap between the payment of vouchers and the incurred cost audit increases the risk that unreasonable or unallowable costs will go undetected.

### **DCMA's Purchasing System Review Was Not Thorough**

DCMA reviewed Anham's contractor purchasing system in August 2009, 23 months after the contract was awarded. DCMA recommended the ACO approve Anham's purchasing system, but identified Anham weaknesses in the adequacy and degree of price competition it obtained, and recommended that the ACO conduct additional surveillance. However, there is no evidence that the ACO provided additional oversight. DCMA's review also did not assess Anham's business relationships with some of its key subcontractors, nor did Anham provide this information.

The contractor purchasing system review identified several weaknesses, including poor price analyses and procurement documentation. Contractor purchasing system reviews document a contractor's policies, procedures, and performance under that system, and are an ACO responsibility. According to FAR 44.302, the ACO should conduct this review if a contractor's sales to the government are expected to exceed \$25 million during the 12 months following signing of the contract.

According to the DCMA report prepared by the Procurement Analyst, "it is the procurement analyst's recommendation that the ACO grant approval of the Contractor's Purchasing System." However, the review made 11 recommendations to address deficiencies and stated in bold lettering that, **"the ACO should conduct surveillance of the supplier's system in accordance with FAR 44.304 and DFARS 244.304, to ensure that these recommendations are corrected."** Late in the contract, one ACO reviewed several million dollars in vouchers and questioned a significant percentage of the costs. However, this is the only evidence SIGIR found that any follow up took place.

According to the FAR (Section 52.244-5), the contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract. The FAR requires cost and price analysis in certain circumstances and identifies the two preferred price analysis techniques: comparing price quotations (competition) and comparing prior quotations with current quotations for the same or similar items. The FAR (Section 15.404-1(b)(2)(i)) also states that, "normally, adequate price competition establishes a fair and reasonable price."



Although DCMA approved Anham's purchasing system, its review of 55 Anham purchase orders and subcontracts found the following:

- 38 purchase orders and subcontracts lacked adequate documentation (source justification, price analysis, etc.).
- 34 purchase orders and subcontracts required a price analysis, and all 34 had "ineffective" price analyses (e.g., "The files lacked documentation to support this.").
- 34 subcontracts/purchase orders required a justification for awards made without adequate price competition, and 32 of the justifications to support these single/sole-source awards were inadequate.

DCMA did not review Anham's ownership and management relationship with its subcontractors, an important part of a contractor purchasing system review. FAR Subpart 44.303, in particular, directs those conducting the review to give special attention to "the treatment accorded affiliates and other concerns having close working arrangements with the contractor." DCMA, however, did not ask questions that should have uncovered ownership and management relationships between Anham and its subcontractors that may make them affiliated, as defined in the FAR.

Identifying ownership and management relationships is important because these types of relationships, while not precluded by the FAR, raise concerns about whether there are *arms-length* business practices occurring that could compromise the government's ability to get fair and reasonable prices for delivered goods and services. FAR Part 44.202-2 states that the Contracting Officer and/or the Administrative Contracting Office should give "particularly careful and thorough consideration" when "close working relationships or ownership affiliations between the prime contractor and subcontractor or vendor may preclude free competition or result in higher prices." Both of these subparts, and a clause in the Anham contract, identify the circumstances under which Anham would be required to notify the Contracting Officer of its intent to subcontract. These subparts and clauses highlight the potential increased risks of overcharges by these affiliates when there is less than an *arm's-length* relationship with the prime contractor.

According to DCMA officials, they asked Anham to identify any organizational relationships with subsidiaries or affiliated companies during the purchasing system review. Anham provided DCMA information showing that the company was formed as a collaboration among three affiliated investment and contracting groups. The three companies are HII-Finance, Arab Supply and Trading Company, and Munir Sukhtian International. Anham also reported that "the Company features a powerful team of local subsidiaries and affiliates..." However, Anham did not disclose a relationship to any subcontractors with whom it does business.

According to DCMA officials, the DCMA review team did not follow up to determine if any of these subsidiaries or affiliates were in fact subcontractors to the Anham contract and whether there were any common ownership or management relationships with any of these subsidiaries and affiliates. As a result, the Contracting Officer did not have information about the potential risks of subcontracting with companies with ownership or management relationships that may have triggered a more careful evaluation of Anham's purchasing decisions.

DCMA has changed its review requirements, placing more emphasis on affiliate relationships. They stated that their reports now have a subsection on affiliates, and they comment on whether the prime contractor has a policy on subcontracting with affiliates. They further stated that DCMA analysts have been directed to query the prime contractor to identify affiliate transactions generated during the review period to include a representation of these transactions as part of their sample of transactions reviewed.

Because neither the Contracting Officer nor his or her designated representative on this contract were aware of any relationships between Anham and its subcontractors providing goods or services under this contract, SIGIR conducted its own research of public sources, including public filings to the Commonwealth of Virginia State Corporation Commission and Dunn and Bradstreet. SIGIR also asked Anham to disclose any ownership or management relationships that it has with subcontractors on this contract. From these sources, SIGIR developed the following information:

- There are six subcontractors on the warehousing contract with whom Anham has an ownership or management relationship, or both. According to Anham, five of these companies are not affiliates as defined in the FAR. However, Anham's website identifies four of the companies as affiliates. SIGIR found that all six subcontractors are directly or indirectly owned, wholly or substantially, by one or more of the three family groups (or members thereof) that collectively own 100% of Anham through subsidiary entities. DCMA did not ask about this information and Anham did not disclose it during the purchasing system review. The six Anham subcontractors and the dollar value of their purchase orders on this contract are:
  - Nour USA, Ltd., \$0.5 million
  - Knowlogy Corporation (Knowlogy), \$1.1 million
  - Unitrans International (Unitrans), \$32.8 million
  - Pioneer Iraqi General Trading Company (Pioneer), \$20.4 million
  - American International Services, \$0.2 million
  - Superior Heavy Equipment Company, \$0.2 million
- Anham officials told SIGIR that only one subcontractor used in the contract—Superior Heavy Equipment Company—was an affiliate as defined in the FAR. However, they did not disclose this information to DCMA during the purchasing system review.

Anham officers hold key management positions in five of the six companies identified above. For example, Anham's chief executive officer (CEO) is also the chairman, director, or president of four of the five Anham subcontractors that it states are not affiliates. The Anham CEO is chairman of Unitrans, and his family group owns 100% of Unitrans through the holding company HII-Finance. Unitrans is the largest subcontractor on Anham's contract, accounting for nearly \$33 million, or about 29%, of total costs through July 31, 2010.

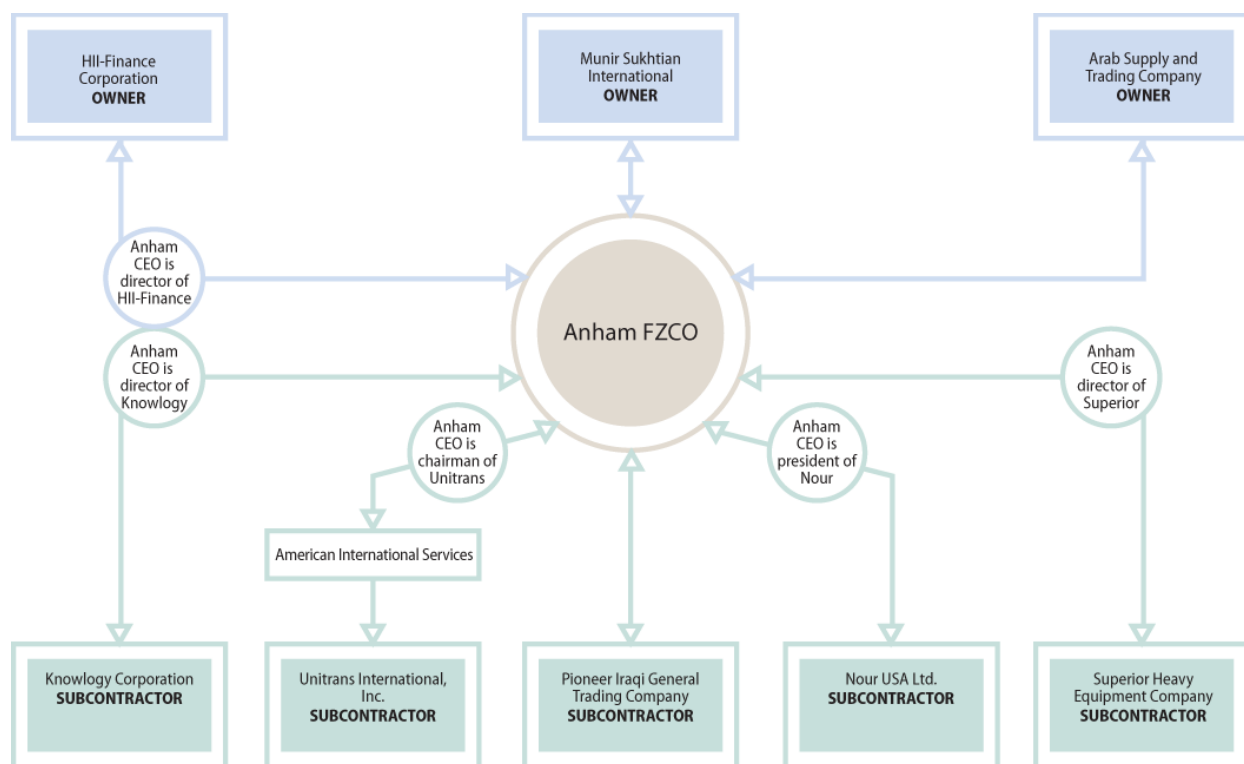
The Anham CEO is also director and owner (through his family group) of Knowlogy, and president of Nour USA Ltd., which his family group partly owns. He is also director and

(through his family group) part owner of Superior Heavy Equipment Company, the company Anham identified as an affiliate. Finally, the Anham CEO is also director and owner (through his family group) of HII-Finance, which directly or indirectly owns 100% of Knowlogy, American International Services, and Unitrans, as well as 25% of Anham.

The secretary of Anham who signed the warehousing contract is also treasurer of Nour USA and secretary of American International Services. Finally, the Anham secretary is also director in HII-Finance which, as noted, owns 25% of Anham and, directly or indirectly, 100% of Knowlogy, American International Services, and Unitrans. Finally, Pioneer Iraqi General Trading Company is 90% owned by an individual who is part of a family group that owns 50% of Anham through a subsidiary. The information presented above is just a partial discussion of the financial and management relationships between Anham and six of its subcontractors.

Figure 2 shows certain ownership and management relationships between Anham, its owners, and the subcontractors discussed in this report.

**Figure 2—Companies Invested in Anham and Certain Subcontractors with Common Owners and Managers**



**Note:** Anham told SIGIR that a company called GMS Holdings, Inc. is a 50% owner of Anham.

*Source: Anham and its corporate filing data from the Virginia State Corporation Commission.*

## Government Reviews of Vouchers Were Poor and Incomplete

In addition to the poor oversight of Anham business systems, SIGIR found that millions of dollars of vouchers were not reviewed and compared to receiving documents. CORs sometimes signed for delivery of goods without verifying that the goods were actually used in the performance of the contract, and, in some cases, Anham employees signed for the receipt of goods instead of the CORs. Late in the contract, one ACO reviewed several million dollars in vouchers and questioned a significant percentage of the costs.

### *Vouchers Were Either Not Reviewed or Received Limited Review*

The government either did not review or only conducted limited reviews of Anham's vouchers. The contract required Anham to submit its vouchers to both the COR and to DCAA for review. The COR reviews, in general, are supposed to ensure that vouchers match receiving documents. At the time of our review, \$113.4 million in expenses had been incurred. However, SIGIR found that the ACO reviewed only \$32.74 million in vouchers, and the CORs reviewed only another \$32.20 million in vouchers for trucking services. Moreover, Anham did not submit \$44.7 million in vouchers for warehousing and delivered items to the ACO, and thus these were not reviewed and compared to receiving documents. According to DCMA officials with whom SIGIR spoke, the ACO conducted self-described " cursory reviews " of \$32.74 million in vouchers. DCMA officials described these reviews as verifying that Anham billed items appropriate to the contract.

Beginning in April 2010, the ACO undertook an extensive review of about \$2.7 million in vouchers for reasonableness that resulted in the ACO questioning \$1.2 million, or 44% of the costs reviewed. Generally, the ACO disapproved or questioned vouchers because they lacked supporting documentation, including lease versus buy evaluations for leased equipment. The ACO requested the necessary supporting documentation, but Anham failed to provide the requested documents. According to the ACO who conducted the review, Anham continued to send vouchers for these items, and the ACO continued to deny payment because Anham did not provide the necessary documentation for the charges.

Table 2 shows a summary of vouchers reviewed and not reviewed for this contract.

**Table 2—Summary Status of Voucher Reviews (in millions)**

#### **Vouchers for warehouse operations and delivered items**

Vouchers receiving a detailed review by ACO (DCMA)	\$2.7
Vouchers receiving a limited review by ACO (DCMA)	32.7
Vouchers not reviewed	44.7
<b>SUB-TOTAL</b>	<b>\$80.1</b>
<b>Invoices for trucking services</b>	
Vouchers reviewed by CORs	32.2
<b>TOTAL</b>	<b>\$112.3</b>

Source: DCMA officials and Anham invoices.

### ***Anham Employees Signed for the Receipt of Goods***

SIGIR's review of material and receipt documentation Anham provided showed that CORs did not sign for receipt of over \$10 million in fuel delivered under this contract. U.S. government officials did not verify that \$7.8 million in leased equipment charged to the government was used in the performance of the contract. For fuel delivery, Anham provided receipts for 60 of 73 requested transactions, accounting for 91% of fuel costs during that period. Anham employees had signed all of these receipts.<sup>5</sup> No U.S. government official signed any fuel receipts at Abu Graib or Umm Qasr from March 2008 to January 2010.

### ***CORs Signed for Delivery of Goods without Verifying That the Goods Were Delivered***

In the course of the audit, SIGIR also found that two CORs signed for receipt of over \$32 million in trucking services (i.e., trucks provided by Anham for use during the contract) without physically confirming that the number of trucks billed was actually utilized.<sup>6</sup> Instead, the CORs relied on Anham-provided documents as evidence that the number of trucks billed was accurate. The CORs could not explain how they confirmed that Anham was only charging for trucks they actually used or had available.

## **DCAA Conducted Provisional Payment Reviews but Has Not Yet Completed Incurred Cost Reviews**

Although ACO reviews of vouchers were minimal, DCAA officials stated that they conducted provisional payment reviews on all Anham invoices. To date, however, DCAA has not completed an incurred cost review.

According to DCAA officials, they received all Anham invoices except invoices for trucking services, and they conducted the required provisional payment reviews. These officials stated that provisional payment reviews do not determine whether the costs submitted for reimbursement are reasonable, nor do they match invoices to receiving documents, verify costs against vendor invoices, or compare costs to market prices. The reviews verify that indirect costs are computed using acceptable billing rates, that fees claimed are computed based on contract requirements, that vouchers have been properly prepared and are mathematically accurate, and billed costs are reconciled to the contractor's accounting records. Once a voucher is provisionally approved, it is forwarded to the paying agent designated in the contract for payment.

DCMA and OSD (Acquisition, Technology, and Logistics) officials told SIGIR that DoD's decision to rely solely on DCAA incurred cost reviews and DCAA contract closeout reviews (reviews that can take place years after a contract is completed) is predicated on a belief that these and other DCAA and DCMA business system reviews discussed above result in little risk to the government of paying unreasonable prices. However, according to DCAA officials, incurred cost reviews should not substitute for oversight by the contracting officers or their

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<sup>5</sup> FAR 7.503(c) (12) (v) lists "accepting or rejecting contractor products or services" as an "inherently governmental function."

<sup>6</sup> Trucking charges were based on a fixed rate, which only required approval by the Contracting Officer's Representative before being sent to the payment office.

designated representatives. DCAA sees contracting officer oversight as complementing their incurred cost reviews.

# **SIGIR Questions Whether \$4.4 Million in Costs Paid by the Government Are Reasonable and Supported**

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SIGIR questions \$4.4 million or almost 39 % of the costs from a judgmentally selected sample of about \$11.4 million in vouchers and procurement actions because they appear to be not fair and reasonable or were not properly documented. The following five examples are discussed below:

- \$453,666 for trailers, plumbing, electrical supplies, and furniture
- \$105,178 for two voice-warning systems
- \$165,124 for two closed-circuit TV systems
- \$210,901 for freight
- \$3,450,000 for leased equipment

## **Example 1: Trailers, Plumbing, Electrical Supplies, and Furniture**

SIGIR is questioning \$453,666, or about 33% of the total costs associated with this \$1,374,834.90 purchase because of issues with possible affiliation, questionable competition, and inappropriate bundling of items that negatively affected the government.

Anham was asked to buy housing trailers, miscellaneous plumbing and electrical supplies, furniture, concrete barriers, bricks, and a generator. Anham bundled these diverse items into one purchase order and solicited proposals from six companies. Only one company, Pioneer Iraqi Trading Company, provided proposed costs for all items. Another company provided a cost proposal for trailers, plumbing, electrical supplies, and furniture, but not the generator. The other four competitors provided price quotes for only a few items within the categories. According to a Technical and Financial Offer Comparison Anham provided, Pioneer had the “best price, past performance, and complete offer” and received the nearly \$1.4 million purchase order. The costs SIGIR questions and the reasons SIGIR questions these costs follow.

1. **Possible Affiliation.** A member of the family group that owns (through a subsidiary) 50% of Anham owns a 90% share in Pioneer. As discussed earlier, this relationship was not disclosed to DCMA during the contractor’s purchasing system review and therefore, the ACO was unaware of the potential risks associated with subcontracting with these companies.
2. **Questionable Competition.** The purchase order was given to Pioneer based on overall “best price,” despite the fact that overall, Pioneer’s prices were almost 21% higher than its competitor.<sup>7</sup>

Another factor that raises questions about competition is how a competition could produce such wide-ranging prices. For example, the proposal sought pricing for 43 plumbing and electrical items, and SIGIR’s review found the following:

- One competitor offered prices that were lower than Pioneer’s for 41 of the 43 items.

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<sup>7</sup> The calculation excluded the cost of the generator because the competitor did not provide price quote for this item.

- For 11 of the 43 items, Pioneer proposed prices that were more than 10 times higher than the competitor's:
  - For a water level electric control switch, Pioneer charged the government \$900 as compared to the competitor's offer of \$7.05 (a 12,666% difference).
  - For a PVC elbow, Pioneer charged the government \$80 as compared to the competitor's offer of \$1.41 (a 5,574% difference). See Figure 3 for a picture of the PVC elbow.
  - For a PVC trap, Pioneer charged the government \$75 as compared to the competitor's offer of \$1.41 (a 5,219% difference).
  - For a 100-amp circuit breaker, Pioneer charged the government \$3,000 as compared to the competitor's offer of \$94.47 (a 3,076% difference).
  - For a 250-amp circuit breaker, Pioneer charged the government \$4,500 as compared to the competitor's offer of \$183.30 (a 2,355% difference).
  - For a 400-amp circuit breaker, Pioneer charged the government \$5,500 as compared to the competitor's offer of \$260.85 (a 2,008% difference).
  - For a 32-amp circuit breaker—large, Pioneer charged the government \$150 as compared to the competitor's offer of \$9.87 (a 1,420% difference).
  - For rolls of cable, 4-core x 6mm, Pioneer charged the government \$275 as compared to the competitor's offer of \$8.46 (a 3,151% difference).
  - For a 250W sodium vapor flood light Pioneer charged the government \$650 as compared to the competitor's offer of \$35.25 (a 1,744% difference).
  - For a reducing nut, 1" to ¾", Pioneer charged the government \$50 as compared to the competitor's offer of \$4.23 (a 1,082% difference).
  - For a steel rebar, Pioneer charged the government \$350 as compared to the competitor's offer of \$16.92 (a 1,969% difference).

3. **Increased Costs Resulting from Bundling Items.** Bundling refers to putting items together. SIGIR does not know whether the government or Anham decided to bundle the items into one purchase order, but overall, we believe that bundling items in this way resulted in the government paying higher prices than necessary. Specifically, bundling was disadvantageous to the government in two ways.

First, three categories of dissimilar items—trailers; plumbing, electrical supplies, and furniture; and a generator—were combined in one purchase order. Bundling them in one purchase order was not necessary because the total cost of each category was above the contract's minimum purchase order threshold, and each category could have been purchased separately.<sup>8</sup> Purchasing these items separately from the subcontractor with the lowest price would have resulted in a savings to the government of \$223,097.<sup>9</sup>

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<sup>8</sup> Anham officials stated that the minimum threshold for purchase orders is usually \$50,000.

<sup>9</sup> The cost for the generator was excluded from this analysis because Pioneer's competitor did not provide quotes.



The second disadvantage to the bundling was that two of the categories contained dissimilar items that significantly skewed the cost. The government could have saved an additional \$230,569 for a total savings of \$453,666, by removing these items from the single purchase order and purchasing them separately from the lowest bidder. For example:

- The trailer category contained a requirement for concrete barriers. By bundling the concrete barriers and trailers into a single purchase, the government paid \$826,000. However, if the government purchased the trailers from the lowest bidder and the concrete barriers from the lowest bidder, it would have paid \$643,524, a savings of \$182,475. Both items were above the contract's minimum purchase threshold and could have been purchased separately.
- The plumbing, electrical supplies, and furniture category contained a requirement for bricks. By bundling these items into a single purchase, the government paid \$476,285. However, if the government purchased the plumbing, electrical supplies, and furniture from the lowest bidder and the bricks from the lowest bidder, the government would have paid \$205,094, a savings of \$271,191. While the lowest offer for the bricks was \$40,000, which is below the \$50,000 minimum purchase order, the bricks could still have been bundled with another item such as the concrete barriers into a separate purchase that would still have saved the government a significant amount of money.

Appendix B of this report contains additional information on Pioneer's costs for items on this contract as compared to a competitor.

**Figure 3—Anham Billed a 1.5" x 4.0" 90-degree PVC Elbow at \$80**



*Source: An example of a PVC elbow that SIGIR photographed.*

## Example 2: Giant Voice Loudspeaker Warning Systems

SIGIR is questioning \$105,178 of the costs Anham billed the government because of issues related to possible affiliation with subcontractors, and questionable competition.

Anham was asked to purchase two warning systems—the Giant Voice Loudspeaker Warning System—to alert warehouse employees of dangerous events. Anham identified the specific system that it wanted to buy (see Appendix D for the manufacturer’s advertisement) but did not purchase the system directly from the manufacturer at the retail price of \$44,615. Instead, Anham sought proposals from three competitors. A company named Knowlogy provided the lowest bid of \$90,908 per system, including installation, and received the order. However, Knowlogy did not purchase the systems directly but rather purchased two systems from a subcontractor named ESTEK. We could not find any explanation as to why an additional subcontractor was brought into this transaction, but such actions warrant examination as they tend to increase costs. Ultimately, the government paid \$206,543 for two systems (including Anham’s overhead fees) that SIGIR believes could have been obtained for about \$101,365. The reasons why SIGIR questions the \$105,178 difference are:

1. **Possible Affiliation.** Anham’s Chief Executive Officer is director and (through his family group) owner of Knowlogy. As discussed earlier, this possible affiliation was not disclosed to DCMA during the contractor’s purchasing system review and therefore, the ACO was unaware of the potential risks posed by this relationship. Also, the systems were shipped by Unitrans, another company with whom Anham has an ownership and management relationship.
2. **Questionable Competition.** Anham solicited cost quotes—to purchase and install the Giant Voice systems at Abu Ghraib and Umm Qasr warehouses—from three companies (see Table 3). Anham selected Knowlogy to acquire the systems. Knowlogy’s proposal to buy and install the system, not including shipping, was \$90,908.

SIGIR questions the competition for this purchase based on price. The manufacturer’s retail price on this system was \$44,615, not including shipping. However, the three proposals obtained by Anham range from 104% (Knowlogy) to 183% (Competitor 2) above retail cost. This wide disparity in proposed prices seems unusual in a competitive environment.

**Table 3—Bids for the Giant Voice Systems (cost per system exclusive of shipping)**

Items	Knowlogy	Competitor 1	Competitor 2
Giant Voice Mobile Unit	\$57,228	\$64,732	\$75,720
Portable Control Unit	\$13,680	\$16,000	\$18,940
Installation and Labor	\$20,000	\$45,000	\$31,550
<b>Total</b>	<b>\$90,908</b>	<b>\$125,732</b>	<b>\$126,210</b>

*Source: Anham as of 09/2010.*

SIGIR is also questioning whether Anham engaged in a true competition with reputable subcontractors to obtain lowest bids. The giant voice system is a commercial item that SIGIR confirmed Anham could easily have purchased directly from the manufacturer, who has other contracts in Iraq. Instead, Anham sought proposals from companies that do not appear to be representatives of the manufacturer, nor, on the surface, appear to have any expertise in warning systems. One competitor, for example, is a data processing company located in Cyprus. SIGIR questions why Anham chose to use middlemen rather than sources close to the manufacturer as the use of middlemen almost guarantees that the government will pay a higher price.

Finally, including installation costs also raises questions about the competition. The three competitors provided installation costs ranging from \$20,000 to \$31,550. According to the manufacturer, however, the system is “plug and play” and requires little effort to install. To confirm this assertion, SIGIR obtained the manufacturer’s operating manual and visually inspected an installed unit at Abu Ghraib warehouse. We noted that installation involved cranking down the four foot pedestals, cranking up the vertical speaker tower, and plugging the unit into a power source (see Figure 4). The ease of installation raises the question as to why, in a competitive environment, three different companies estimated such high installation costs. SIGIR also questions the installation costs charged to the government because Anham’s site manager stated that the labor and equipment used to install the Giant Voice unit at Abu Ghraib warehouse was provided by on-site personnel already paid by the U.S. government. Moreover, the Giant Voice unit intended for the Umm Qasr warehouse was delivered *after* the warehouse was turned over to the Government of Iraq, so the Iraqis were responsible for the installation.

**Figure 4—Anham, through Knowlogy, Billed \$20,000 for Installation of a “Plug and Play” Voice System**



Source: SIGIR photo from visit to Abu Ghraib warehouse.

### Example 3: Closed Circuit Television Systems

SIGIR is questioning \$165,124 Anham billed the government because of issues related to possible affiliation with its subcontractors, price competition, and unsupportable charges.

Anham was asked to purchase two Closed Circuit Television Systems (CCTVs) for the Abu Ghraib and Umm Qasr warehouses. The proposal identified the specific CCTV system Anham wanted, which was a commercially available system. Anham, however, did not go to the manufacturer. Rather, it solicited cost proposals from five companies and, again, Knowlogy provided the lowest proposal at \$188,302 each and was awarded the purchase. Knowlogy then went to ESTEK and purchased the systems for \$160,302 each, including installation, training, and a one-year maintenance contract. A review of Anham vouchers, however, shows that Anham billed the U.S. government \$386,535 for the two systems, including Anham's overhead fees. SIGIR found that the two systems could have been procured from a U.S.-based company for \$194,904 (or \$221,411 with Anham's overhead fees). As a result, SIGIR questions \$165,124 (the difference between \$386,535 that was billed to the government and \$221,411 that the systems actually cost with allowable overhead fees).

The costs SIGIR questions and the reasons SIGIR questions these costs are:

1. **Possible Affiliation.** Anham's Chief Executive Officer is director and (through his family group) owner of Knowlogy. As discussed earlier, this possible affiliation was not disclosed to DCMA during the contractor's purchasing system review, and therefore, the ACO was unaware of the potential risks posed by this relationship.
2. **Questionable Competition.** Again, as was the case with the voice warning system, instead of purchasing the CCTV systems directly from the manufacturer or a manufacturer's representative, Anham solicited cost proposals—to purchase, ship, and install the CCTV system at the Abu Ghraib and Umm Qasr warehouses—from five companies. It is not clear from Anham's documentation that the companies that were solicited for proposals have expertise in closed circuit security systems, including the data processing company in Cyprus that also provided a proposal for the voice warning system.

SIGIR's research also found that two of the companies that were solicited for proposals are owned by two individuals with the same last name living at the same address. Yet the two companies submitted proposals that were \$55,674 different, again raising questions about the validity of the competition that took place on this proposal. SIGIR again questions why Anham chose to use middlemen rather than sources close to the manufacturer, as using middlemen almost guarantees that the government will pay a higher price.

3. **Questionable Costs.** After Knowlogy was awarded the purchase, it asked ESTEK—a company that had also provided a cost proposal for the CCTV system—to buy the CCTV systems. SIGIR obtained a purchase order that show that ESTEK bought the systems for \$194,904 from a U.S.-based company operating in Iraq. This included installation, training, and maintenance.



SIGIR then obtained another invoice that showed ESTEK charged Knowlogy \$320,604 for the two systems, \$125,700 higher than the \$194,904 it paid. In reviewing information that Anham provided, SIGIR did not find documentation that explained the cost difference.

Lastly, a review of multiple invoices showed Knowlogy charged Anham \$340,260 for the two systems, \$19,656 more than it paid to ESTEK. The invoices reviewed also showed that Knowlogy charged Anham for training, installation, and maintenance, even though these services were a part of ESTEK's original cost proposal. In responding to SIGIR's observation, Anham officials stated that Knowlogy actually gave the government a "discount" rate. Specifically, Anham officials said that the original requirement was for Anham to install 16 cameras at Abu Ghraib warehouse. The government later wanted Anham to install 20 cameras, but did not approve any cost increase. Wanting to "keep the client happy and get the work done," Anham negotiated with Knowlogy to install the additional cameras at no extra cost. SIGIR was unable to find adequate documentation supporting this statement.

In total, SIGIR calculates that Anham could have saved the government about \$165,124 had it purchased the CCTV systems from the initial source, rather than contracting with Knowlogy.

Figure 5 shows how each of the involved entities marked up the cost of the Giant Voice and Closed Circuit Television Systems.

**Figure 5—Mark-ups and Other Questionable Charges by Anham for “Giant Voice” and CCTV Equipment**

	“GIANT VOICE” UNITS (2)		CCTV CAMERAS AND EQUIPMENT	
				
	ACTUAL COST	MARKET COST	ACTUAL COST	MARKET COST
Manufacturer/Supplier Price	\$89,230	\$89,230	\$194,904	\$194,904
ESTEK	↓ +\$52,586	↓	↓ +\$125,700	↓
Knowlogy (Installation)	↓ +\$40,000	↓	↓ +\$19,656	↓
Anham (Overhead & Fees: 13.6%)	↓ +\$24,727	+\$12,135	↓ +\$46,275	+\$26,507
Total	\$206,543	> \$101,365	\$386,535	> \$221,411
Questionable Costs		\$105,178		\$165,124

**Note:**

ESTEK charged Knowlogy \$141,816 for two Giant Voice systems (which includes Giant Voice units and portable control units). The manufacturer’s cost for the two systems is \$89,230. The difference is \$52,586. Similarly, ESTEK charged Knowlogy \$320,604 for two CCTV security systems. ESTEK paid \$194,904. The difference is \$125,700.

Source: SIGIR analysis of invoices, contracts, and shipping/receiving documents from the manufacturers, ESTEK, Knowlogy, Unitrans, and Anham.

## Example 4: Anham’s Airfreight Costs Lacked Documentation of Approval

SIGIR is questioning about \$210,901 in airfreight charges because Anham did not provide documentation showing the need for using airfreight services for transporting materials and equipment to Iraq.

To illustrate, 13 of the 20 invoices that SIGIR reviewed did not indicate that airfreight had been authorized by a U.S. official<sup>10</sup>, and some of the airfreight costs were significant. For example, we found that Anham billed \$34,880 to airfreight heating and air conditioning units from Saudi Arabia to Baghdad, Iraq. Anham also billed \$30,070 to airfreight plywood, light bulbs, and cotton gloves from Amman, Jordan to Baghdad. Lastly, Anham airfreighted exercise equipment from the United States at a cost of \$23,327. SIGIR believes that while some of these materials and equipment may have been urgently needed, the high cost of transporting some items that appear non-essential (such as exercise equipment) warrants a closer review by U.S. officials. Table 4 shows Anham’s airfreight costs that lack documentation of approval.

<sup>10</sup> Three other invoices showed airfreight charges for which there was no documentation of approval. However, SIGIR’s review showed that Anham reversed these charges billed to the government.

**Table 4—Anham’s Airfreight Charges to Iraq Lacking Documentation of Approval**

Shipment	Departure Point	Questioned Costs
Exercise Equipment	United States	\$23,327.60
Firefighting Equipment	United States	12,991.12
Heating and Cooling Units	Saudi Arabia	34,880.00
Construction Materials	Jordan	30,070.00
Spare Parts	United States	8,319.72
Tools	United States	6,875.00
Tires	United States	6,490.00
Tires	United States	7,139.00
Office Supplies	Jordan	8,750.00
Auto Parts and Engine Oil	United Arab Emirates	26,271.30
Electronic Equipment	United States	4,411.00
Unknown	Jordan	21,823.75
Unknown	United States	19,552.18
<b>Total</b>		<b>\$210,900.67</b>

*Source: SIGIR analysis of Unitrans’ invoices provided by Anham.*

## **Example 5: Anham’s Costs for Leased Equipment Are Higher Than Market Prices**

SIGIR questions about \$3.45 million that Anham charged the government for leased equipment. SIGIR reviewed 37 separate invoices that showed Anham charged the government \$7.8 million for leased equipment from April 2008 to June 2010. These invoices contained 35 individual leased items including backhoes, cranes, trucks, forklifts, septic tankers, concrete mixers, fuel tankers, street sweepers, and shovels. Figure 6 shows some of the leased equipment at Abu Ghraib warehouse.

**Figure 6—Leased Equipment at Abu Ghraib Warehouse**



*Source: SIGIR photograph of equipment at Abu Ghraib Warehouse, taken May 19, 2010.*



SIGIR's market price analysis for each of the 35 items concluded that Anham charged \$3.45 million, or 42% more than the average price in our market survey. (Appendices E and F detail SIGIR's market price analysis.) In responding to our observations, Anham officials stated that costs charged to the government included operators, insurance, and maintenance that SIGIR's analysis did not include. However, SIGIR could not confirm that equipment lease rates included operator costs. It is also unclear from Anham's files that the bids companies provided for leasing the equipment included these services, and none of the bids discussed labor rates. SIGIR spoke with a COR who was on site at Abu Ghraib for 24 months, and she stated that Pioneer did not provide operators for forklifts. Instead, Anham provided the operators by using on-site labor that was already billed separately. Based on this observation, at least one-third of the leased equipment costs should not have included an operator's cost. Another COR told SIGIR that the leased equipment was barely used in the contract's final year.

SIGIR asked Anham to provide additional documentation from its subcontractor Pioneer and its suppliers as well as an address and point of contact for Pioneer for us to contact. Anham told SIGIR that it was "unable to provide" an address for Pioneer. This seems implausible, however, since Pioneer provided \$20.4 million in goods and services under this contract, and Anham lists Pioneer as an affiliate on its website. SIGIR subsequently located Pioneer's address on a purchase order. Of note, Pioneer's address on this purchase order is the same address as Anham's office in Amman, Jordan.

SIGIR sent Pioneer an email requesting invoices for the items it leased for Anham under this contract. In a response email from Pioneer, its officials stated that the company could not provide SIGIR with its subcontractors' (3<sup>rd</sup> tier subcontractors) invoices for the following reasons. (The following quotes were taken verbatim from Pioneer's response to SIGIR.)

1. Disclosing information for local vendors will put Pioneer at high risk because of commitments to their suppliers of not disclosing their contacts. Disclosing these contacts would put Pioneer and their staff, their life, and even their extended families at extremely high risk.
2. Pioneer [does not] keep all the documentations for all activities either because of security reasons or because of not keeping documentation based on subcontractors request of not dealing with the US government or because they don't know that we are dealing with US government. Other reason is that there is no condition in Anham tenders for suppliers that they should disclose their information. If this condition was there, then Pioneer would either manage to provide [this] information since day one as possible or decline from participation from these bids.
3. In Iraq, there are no standard points for [material handling equipment] supplies and the same goes true for many other services and also for the fuel. Many of deals were executed by phone calls or by word of mouth or they don't keep any documents for security reasons.
4. Iraqi market is not similar to the international standard markets because of high risk environment, military actions, non modern working process, no system for commercial market and no regulations to organize local, individual business, so there is no certain



resource or certain documents that can be obtained for your works especially if they know that you deal with US contractors. Actually we are talking about the period that security was the main concern of any deal.

# Conclusions and Recommendations

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## Conclusions

This report looked at the processes used to ensure that the U.S. government pays fair and reasonable prices on contracts that involve subcontractors. Overall, we found a number of areas that we believe require attention, specifically, the review of prime contractor business systems and the need to take action when risks are identified.

One of the risks identified in this review was DCMA's failure to ask about Anham's relationships with its subcontractors. Exploring these relationships is important because it may raise important questions about whether there is truly an *arms-length* business relationship between the prime contractor and its subcontractors. DCMA officials agreed that they should have conducted a more thorough review.

The lack of transparency regarding the relationship between Anham and its subcontractors calls into question whether Anham used due diligence to ensure that the U.S. government received a fair price for the goods and services it purchased. Anham and its subcontractors either could not or would not provide SIGIR basic cost documentation to support the costs they charged. Moreover, SIGIR's analysis that Anham and six subcontractors may be "affiliates" within the meaning of the FAR because of ownership and management relationships would, if substantiated, limit the markup and costs allowed to be charged to the U.S. government. Because government oversight did not sufficiently explore these relationships, however, no effort was made to limit allowable markups and costs.

Another risk is that DCMA recommended approval of Anham's purchasing system even though it could not find required documentation of price analysis for all 38 items it tested. Without these price analyses, DCMA could not determine if Anham's subcontractor prices were fair and reasonable. The analyst who conducted the review did recommend that the ACO perform surveillance of Anham's purchasing system, but there is no evidence in the contracting files that this occurred. Instead, the various CORs involved in this contract appear to have relied on questionable competition as their basis for determining if prices were fair and reasonable. DCMA officials told SIGIR that they have changed their procedures and improved the oversight of purchasing system reviews. They stated that based on the procedures put in place subsequent to SIGIR raising concerns, they would not have approved Anham's purchasing system.

DCAA is going to complete an incurred cost review on this contract, and this review may explain some of SIGIR's questioned costs. However, DCAA has a significant backlog of incurred cost reviews, and delays add additional risk and vulnerability that the government may pay unreasonable or unallowable costs.

In addition to the risks identified above, SIGIR also found problems with the day-to-day oversight of this contract. Fifteen different Contracting Officers were assigned to this contract over the roughly two-and-a-half years of contract implementation which, in and of itself, results in a lack of continuity necessary for effective oversight. Further, Contracting Officers and their designated representatives failed to effectively review over \$44 million of about \$112 million in

vouchers. Vouchers were not compared to receiving documents, deliveries were not verified, and contractor employees were allowed to sign for the receipt of millions of dollars in supplies. Late in the contract, an ACO started reviewing invoices, and these reviews disapproved or questioned over 44% of invoiced costs. These reviews demonstrate what can be accomplished with effective oversight.

Given the risks SIGIR identified in this review, we conducted our own price review. Our review involved only \$11.4 million in invoices and questioned \$4.4 million, or about 39 % of the costs. SIGIR questioned these costs because of questionable competition, SIGIR's own price analyses, or because Anham did not provide documentation to show that it was charging the U.S. government in accordance with the contract and FAR regulations. The issues we identified are significant enough that SIGIR believes that all costs under this contract should be carefully examined, as well as all contracts awarded to Anham.

## **Recommendations**

SIGIR recommends that the Office of the Secretary of Defense change its guidance to contracting officers to give them responsibility, in cooperation with DCAA, for reviewing the reasonableness of prices charged to the government.

SIGIR also recommends that the Commander, CENTCOM, take the following actions:

1. Determine whether Anham and its subcontractors on this contract are "affiliates" as defined by the FAR.
2. Review all vouchers submitted under this contract to ensure that appropriate pricing analysis was conducted and that prices are fair and reasonable.
3. Initiate a systematic review of billing practices on all Anham cost-type prime contracts in Iraq and Afghanistan.

SIGIR also recommends that the Director, Defense Contract Management Agency, conduct a new contractor purchasing system review on Anham.

## **Management Comments and Audit Response**

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SIGIR received written comments from the Defense Contract Management Agency (DCMA) and the CENTCOM Joint Theater Support Contracting Command (C-JTSCC). The Office of the Secretary of Defense did not respond to SIGIR's draft report.

DCMA concurred with SIGIR's recommendation that it perform a new contractor purchasing system review of Anham.

C-JTSCC partially concurred with SIGIR's recommendation that it determine whether Anham and its subcontractors on this contract are "affiliates" as defined in the FAR. However, it stated that it believes DCMA would be the more appropriate agency to make the determination since it was delegated the responsibility for reviewing and approving the contractor's purchasing system. SIGIR does not agree. The FAR assigns the ACO the responsibility to approve the purchasing system, and the ACO may request that DCMA conduct the review. Responsibility for the system review, however, remains with C-JTSCC. Additionally, DCMA's conclusions and recommendations are advisory to the ACO and it is the ACO's responsibility to approve or disapprove Anham's purchasing system based on the DCMA findings. For example, the DCMA purchasing system report that is discussed in this report clearly states that the report provides the ACO with a basis for granting, withholding or withdrawing approval of a contractor's purchasing system.

C-JTSCC also partially concurred with SIGIR's recommendation that it review all vouchers submitted under this contract, but believes that the voucher reviews should only be performed on cost type contracts. SIGIR would generally agree with C-JTSCC's position, if Anham's firm fixed price subcontracts were awarded based on adequate price competition. However, this report raises questions about the Anham's competition practices. As a result, SIGIR believes that a review of all vouchers, both fixed price and cost should be reviewed. The extent of this review should be based on the results of the new contractor purchasing system review of Anham, that DCMA has agreed to conduct. C-JTSCC also questions whether it will be able to complete the review in the time remaining before USF-I ends its mission in June 2012. While SIGIR recognizes the time constraint, we believe that it should work with DoD to get the resources needed.

Finally, C-JTSCC partially concurs with SIGIR's recommendation that it systematically review the billing practices on all Anham contracts in Iraq and Afghanistan. C-JTSCC does not believe that it should review firm fixed price contracts with Anham. SIGIR agrees that where a prime contract is fixed price it would not need review.

# **Appendix A—Scope and Methodology**

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## **Scope and Methodology**

In March 2010, the Special Inspector General for Iraq Reconstruction (SIGIR) initiated Project 1009 to examine the oversight and cost of Anham's contract (W91GXZ-07-R-011) for warehouse and distribution services at Abu Ghraib and the Port of Umm Qasr. This audit was performed by SIGIR under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work from March 2010 through June 2011 in Baghdad, Iraq and Arlington, Virginia.

To determine the adequacy of contract oversight, we interviewed knowledgeable officials at CENTCOM Joint Theater Support Contracting Command (formerly Joint Contracting Command–Iraq/Afghanistan), the Defense Contract Management Agency, the Defense Contract Audit Agency, the U.S. Army Corps of Engineers, the U.S. Forces–Iraq J4 (Logistics), Contracting Officers' Representatives, and Abu Graib and Umm Qasr commanders. We also requested and reviewed the contract files, and other relevant oversight documents.

To determine the adequacy of the government's oversight of Anham business systems, we reviewed available government reports and information on Anham's accounting, billing, purchasing and estimating systems. Specifically, we evaluated DCAA reports on Anham's accounting and billing systems and DCMA's report on Anham's purchasing systems. We also held discussions with DCMA and DCAA officials to better understand their roles and responsibilities.

To assess whether costs charged under this contract were reasonable, we used a two-phase methodology. Phase I involved testing a limited judgmental selection of transactions across all five of Anham's cost categories (Fuel, Trucking, Equipment, Labor, and Other Direct Costs.) Based on the results of that testing, along with the results of limited data mining, Phase II involved testing a larger, more targeted set of transactions.

Our total dataset consisted of 295 line items totaling \$23.15 million, for which we requested from Anham 2nd tier invoices and other evidence of incurred costs. Of those 291 transactions we went back to Anham and their affiliates and requested 3rd tier invoices for 116 transactions totaling \$11.25 million. We selected a judgmental sample of items from a slightly different data set of \$11.35 million in goods and services on which to conduct market research whose costs appeared unusually high on Anham's subcontractor invoices. See Table 5 for a breakdown of all selected transactions.

In addition, we evaluated documentation provided by Anham management regarding the level of competition they obtained on procurement actions we judgmentally selected as a means of testing the extent to which they were following FAR requirements to obtain adequate price competition. We also assessed whether there was documentation available that supported Anham's decisions.

**Table 5—Total Transactions Selected and Tested**

	Total Transactions for which SIGIR Requested 2 <sup>nd</sup> Tier Invoices and Receiving Documents		Total Transactions for which SIGIR Requested 3 <sup>rd</sup> Tier Invoices and Evidence of Competition		Total Transactions on which SIGIR Conducted Some Market Analysis	
Phases						
I & II	#	\$	#	\$	#	\$
Labor	64	\$246,676.98	-	-	-	-
Other Direct Costs	112	\$9,849,209.27	89	\$8,067,400.78	112	\$9,849,209.27
Equipment	22	\$1,502,856.22	15	\$560,173.46	22	\$1,502,856.22
Fuel	69	\$10,949,614.25	12	\$2,618,838.45	-	-
Trucking	24	\$153,677.20	-	-	-	-
<b>Total</b>	<b>291</b>	<b>\$22,702,033.92</b>	<b>116</b>	<b>\$11,246,412.69</b>	<b>134</b>	<b>\$11,352,065.49</b>

To determine whether Anham's costs were fair and reasonable we conducted open market research. For leased costs we contacted a large U.S. contractor in the Baghdad area who requested bids from six subcontractors in the Baghdad area. For all other market prices we performed internet research using dimensions and serial numbers to obtain prices for like goods.

To determine the cost of the contract, SIGIR obtained and analyzed relevant financial and other data from the U.S. Army Corps of Engineers' Finance Office as well as the contractor.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Use of Computer-processed Data

We did not use computer-processed data in this report. Cost data was provided by the contracting office and Anham.

## Internal Controls

We identified and reviewed internal controls used in managing and administering the contract. Our review included controls related to the contract administration and program management. To conduct this review, we examined documents in the contract file such as invoice approvals and held discussions with key oversight officials for insight on internal controls. We did not examine Anham's internal management and financial controls. We presented the results of our review in the body of this report.

## **Prior Coverage**

We reviewed the following reports by SIGIR and the Government Accountability Office:

### ***Special Inspector General for Iraq Reconstruction***

*Iraq Security Forces Fund: Weak Contract Oversight Allowed Potential Overcharges by AECOM To Go Undetected*, SIGIR 10-005, 10/30/09.

*Security Forces Logistics Contract Experienced Certain Cost, Outcome, and Oversight Problems*, SIGIR 09-014, 4/26/09.

### ***U.S. Government Accountability Office***

*Role in Helping Ensure Effective Oversight and Reducing Improper Payments*, GAO-11-331T, 2/1/11.

## Appendix B—Pioneer’s Costs for Items Compared to a Competitor

Item	Qty	Competitor Price	Pioneer Price	Pioneer's Price as % Under/Over Competitor	Potential Under-/Overcharge
<b>Trailers</b>					
12 ft x40 ft, open bay accommodation trailers	20	\$19,065.08	\$14,500.00	-24%	\$-91,301.60
12 ft x40 ft, two rooms accommodation trailers	10	19,411.00	15,500.00	-20%	-39,110.00
fasterin [sic] ablution Trailer	1	28,378.60	16,800.00	-41%	-11,578.60
Western ablution Trailer	1	28,378.60	17,500.00	-38%	-10,878.60
40 ft. metal container	1	9,400.00	4,500.00	-52%	-4,900.00
concrete barriers, 1 m x 2 3/2 high	236	676.80	1,450.00	114%	182,475.20
<b>Subtotal</b>					<b>\$24,706.40</b>
<b>Materials</b>					
cable, 4-CORE X 150 MM	55	95.88	350.00	265%	13,976.60
cable, 4-CORE X 50 MM	150	35.25	275.00	680%	35,962.50
cable, 4-CORE X 35 MM	160	25.38	250.00	885%	35,939.20
cable, 4-CORE X 6 MM	5	8.46	275.00	3,151%	1,332.70
circuit breaker box with 1500 AMP circuit breaker, BUS BARS 1500 AMP	1	3,525.00	7,500.00	113%	3,975.00
circuit breaker, 400 AMP	1	260.85	5,500.00	2,008%	5,239.15
circuit breaker, 250 AMP	4	183.30	4,500.00	2,355%	17,266.80
circuit breaker, 100 AMP	1	94.47	3,000.00	3,076%	2,905.53
water tank, 10,000 liters	1	1,445.25	6,500.00	450%	5,054.75
water pump, 3"	2	1,163.25	1,500.00	29%	673.50
water level float, electrical control switch	1	\$7.05	900.00	12,666%	892.95
cement, portland	3	232.65	550.00	136%	952.05
sand, red	36	42.30	214.28	407%	6,191.40
gravel, 7MM	48	42.30	214.29	407%	8,255.30
sodium vapor flood light 250 W	6	35.25	650.00	1,744%	3,688.50
washing machine, heavy duty	8	1,762.50	2,500.00	42%	5,900.00
circuit breaker, large, 32 AMP	4	9.87	150.00	1,420%	560.52
silicon tube	50	2.82	10.00	255%	359.00
PVC, 4" ID X 6 meters	13	38.07	150.00	294%	1,455.09
PVC elbow, 1.5" X 4	15	1.41	80.00	5,574%	1,178.85
PVC, 1/5" X 6 meters	10	49.35	80.00	62%	306.50
PVC traps, 4"	8	1.41	75.00	5,219%	588.72
PVC T-Union, 4"	16	6.35	60.00	845%	858.48
galvanized steel pipe, 1" X 6 meters	15	56.40	120.00	113%	954.00
erducing [sic] nut, 1" to 3/4"	30	4.23	50.00	1,082%	1,373.10
nipple, 1" to 3/4"	30	4.23	40.00	846%	1,073.10
PVC T-Union, 1" to 3/4"	30	4.23	40.00	846%	1,073.10



Item	Qty	Competitor Price	Pioneer Price	Pioneer's Price as % Under/Over Competitor	Potential Under-/Overcharge
<b>Materials</b>					
water heater, 380 liters	3	634.50	1,500.00	136%	2,596.50
desk	26	352.50	450.00	28%	2,535.00
dresser drawers	164	211.50	400.00	89%	30,914.00
single beds	2	129.72	150.00	16%	40.56
wardrobes	2	297.51	450.00	51%	304.98
double deck bunk beds	72	317.25	250.00	-21%	-4,842.00
galvanized steel pipes, 3/4" X 6 meters	15	\$49.35	90.00	82%	609.75
laundry drier, heavy duty	8	1,128.00	1,500.00	33%	2,976.00
pillow	164	21.15	25.00	18%	631.40
mattress, single	164	28.20	120.00	326%	15,055.20
blankets	164	45.12	90.00	99%	7,360.32
bed sheets, sets	164	28.20	65.00	131%	6,035.20
refrigerator, 5 cu ft	38	423.00	1,500.00	255%	40,926.00
chairs	26	197.40	200.00	1%	67.60
bricks, 6 cm X 8 cm X 24 cm	8,000	14.10	5.00	-65%	-72,800.00
Steel rebar, 1/2" X 6 meters	24	16.92	350.00	1,969%	7,993.92
<b>Subtotal</b>					<b>\$198,390.82</b>
<b>Total</b>					<b>\$223,097.22</b>

**Note:**

Percentages are affected by rounding.

Source: SIGIR's analysis of Anham's data.

## Appendix C—Total Value of Anham’s Contracts with the U.S. Government in Afghanistan and Iraq

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Table 6 shows the number and value of Anham’s contracts with the U.S. government for work performed in Iraq, Afghanistan, and elsewhere. This information was obtained from Anham and their accounting firm, Compass BPO. SIGIR did not audit this data or these contracts. Funded values represent the portion of the total contract amount for which the U.S. government has identified and obligated the source of funds. The total contract amount could be higher.

**Table 6—Anham’s Contracts with the U.S. Government in Iraq and Afghanistan**

	Iraq	Afghanistan	Iraq/Kuwait/ Jordan	Unidentified	Total
<b>Number of Contracts</b>	35	20	1	10	66
<b>Funded Value</b>	\$1,193,965,130	\$446,395,133	\$2,156,364,276	\$70,485,243	\$3,867,209,782

*Source: Anham and their accounting firm, Compass BPO.*

# Appendix D—Advertisement for Giant Voice Mobile Unit

**GIANTVOICE.COM**  
EMERGENCY SYSTEMS

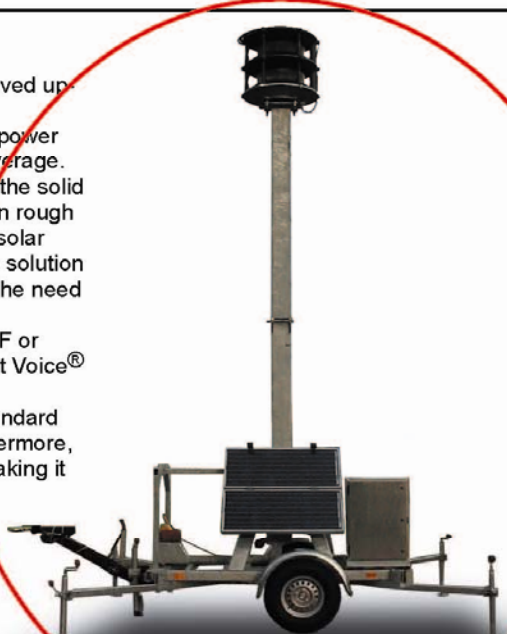
  

## GIANT VOICE® MOBILE UNIT

*The Giant Voice® Mobile Unit is the flexible alternative for temporary installation designed to meet your requirements even in harsh environments.*

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The Giant Voice® Mobile Unit 3.1 is the new improved upgrade of our well-known mobile siren unit. This improved version still features Whelen's high power voice & siren system providing a 360° superior coverage. This updated version is even easier to handle and the solid supporting legs make it possible to erect the unit on rough ground. The mobile unit is equipped with 2 x 65W solar panels for recharging the batterie - this is a flexible solution independent of external power supplies, reducing the need for maintenance to a minimum. The mobile unit is equipped with a 25W radio (UHF or VHF) and can be activated remotely from our Giant Voice® Portable Control Unit. The Giant Voice® Mobile Unit 3.1 meets NATO standard requirements and it has 24Voltvehicle lights. Furthermore, it is equipped with a NATO standard towing eye making it easy to move around.



### SYSTEM FEATURES

**System configuration**


- o TWS292 Two Omni-directional Speaker Cells
- o Two Compartment Aluminum Cabinet
- o 25 Watts 2-way Radio incl. Omni-directional 0dB Gain Antenna and Polyphaser
- o Local Push Button Panel
- o Battery Switch
- o Grounding Rod

**Performance**

Output:	115dB(C) @ 30 Metres/100'
Endurance:	Minimum 30 minutes of full power output with our recommended batteries
Standard Tones:	Wail, Whoop, Attack, HI-LO, Airhorn and Public Address
System Test/Supervision:	SI-Test®, Low Battery Alarm and more



## Appendix E—Pioneer Voucher and Market Comparison

**Table 7—December 2008 Invoice for Leased Equipment from Pioneer and Current Market Rates**

On site/Permanent Equipment

Equipment Type	QTY	Dec. working days	USD rent/Day	Total
Septic tanker - w	1	31	300	9,300
Septic tanker - Y	1	31	300	9,300
Septic tanker - R	1	31	300	9,300
Garbage truck	1	31	300	9,300
BUS	1	31	200	6,200
KIA 2 Ton	1	31	50	1,550
Cargo double cabin 2 ton	1	31	100	3,100
Cargo truck 10 ton	1	31	200	6,200
Cargo truck 10 ton	1	31	200	6,200
Shovel	1	31	275	8,525
Crane 20 Ton	1	29	250	7,250
Concrete Mixer	1	31	200	6,200
Telescope Forklift	1	31	275	8,525
Fuel Tanker	1	31	200	6,200
Street sweeper	1	31	250	7,750
Dump truck	1	31	220	6,820
Wrecker	1	31	275	8,525
Forklift TCM 3 Ton	1	31	175	5,425
Forklift TCM 3 Ton	1	31	175	5,425
Forklift Komatsu 3Ton	1	31	175	5,425
Forklift Mitsubishi 3Ton	1	31	175	5,425
Forklift HELI 3Ton	1	31	175	5,425
Forklift HELI 3Ton	1	31	175	5,425
Forklift HELI 10 Ton	1	31	225	6,975
Forklift TCM 3 Ton	1	31	175	5,425
Forklift TCM 3 Ton	1	31	175	5,425
Forklift Hyundai 3 Ton	1	31	175	5,425
Crane 80 ton	1	31	1200	37,200

Temporary equipment

Shovel	1	31	400	12,400
Dump truck	1	31	350	10,850
Dozer	1	31	450	13,950
Roller machine	1	31	550	17,050
Poclain - Backhoe	1	31	550	17,050
Grader	1	31	500	15,500
Crane 28 ton	1	8	500	4,000

**Total Invoice Amount** \$304,045

Market Average	Amount billed over Market Average
4,417	4,883
4,375	4,925
4,317	4,983
5,167	4,133
4,233	1,967
2,678	-1,128
2,678	422
3,925	2,275
4,008	2,192
5,167	3,358
6,317	933
6,200	0
6,208	2,317
4,775	1,425
5,525	2,225
4,467	2,353
5,603	2,922
3,632	1,793
3,648	1,777
4,123	1,302
4,123	1,302
3,982	1,443
3,982	1,443
5,817	1,158
4,098	1,327
4,098	1,327
4,048	1,377
15,167	22,033

6,450	5,950
4,467	6,383
6,425	7,525
6,208	10,842
5,965	11,085
6,008	9,492
4,000	0

**\$176,301** **\$127,744**

## Appendix F—Questionable Costs on Pioneer Leased Equipment

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Month	Invoiced Amount	SIGIR Calculated Average Market Rate	Percent Over Market	Potential Overbilling
Apr 2008	\$195,275	\$142,219	27%	\$53,056
Apr 2008	\$62,000	\$20,851	66%	\$41,149
May 2008	\$251,370	\$164,153	35%	\$87,217
June 2008	\$325,725	\$191,317	41%	\$134,408
July 2008	\$58,900	\$15,751	73%	\$43,149
July 2008	\$286,445	\$176,360	38%	\$110,085
Aug 2008	\$58,900	\$15,851	73%	\$43,049
Aug 2008	\$330,245	\$198,075	40%	\$132,170
Sep 2008	\$393,125	\$224,685	43%	\$168,440
Sep 2008	\$57,000	\$15,851	72%	\$41,149
Oct 2008	\$58,900	\$15,851	73%	\$43,049
Oct 2008	\$343,845	\$203,536	41%	\$140,309
Nov 2008	\$57,000	\$15,851	72%	\$41,149
Nov 2008	\$288,075	\$173,702	40%	\$114,373
Dec 2008	\$65,100	\$20,626	68%	\$44,474
Dec 2008	\$304,045	\$176,301	42%	\$127,744
Jan 2009	\$289,305	\$175,901	39%	\$113,404
Feb 2009	\$297,010	\$184,374	38%	\$112,636
Feb 2009	\$64,400	\$25,401	61%	\$38,999
Mar 2009	\$318,595	\$180,267	43%	\$138,328
Mar 2009	\$71,300	\$25,401	64%	\$45,899
Apr 2009	\$307,850	\$179,067	42%	\$128,783
Apr 2009	\$69,000	\$25,401	63%	\$43,599
May 2009	\$316,595	\$178,266	44%	\$138,329
June 2009	\$281,975	\$173,800	38%	\$108,175
July 2009	\$265,095	\$170,725	36%	\$94,370
Aug 2009	\$213,120	\$126,668	41%	\$86,452
Sep 2009	\$229,300	\$137,885	40%	\$91,415
Oct 2009	\$228,470	\$129,685	43%	\$98,785
Nov 2009	\$233,750	\$135,650	42%	\$98,100
Dec 2009	\$252,720	\$142,850	43%	\$109,870
Jan 2010	\$245,520	\$135,650	44%	\$107,557

<b>Month</b>	<b>Invoiced Amount</b>	<b>SIGIR Calculated Average Market Rate</b>	<b>Percent Over Market</b>	<b>Potential Overbilling</b>
Feb 2010	\$227,160	\$141,050	38%	\$86,110
March 2010	\$208,695	\$125,960	40%	\$82,735
Apr 2010	\$199,350	\$123,618	38%	\$75,732
May 2010	\$211,745	\$124,393	41%	\$87,352
June 2010	\$204,600	\$124,126	39%	\$80,474
<b>Total</b>	<b>\$7,871,505</b>	<b>\$4,537,113</b>	<b>42.33%</b>	<b>\$3,332,078</b>

*Source: SIGIR Analysis of 37 Pioneer invoices.*

## Appendix G—Abbreviations

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Abbreviations	Description
ACO	Administrative Contracting Office
Anham	Anham, FZCO, LLC
CEO	Chief Executive Officer
COR	Contracting Officer's Representative
C-JTSCC	Joint Theater Support Contracting Command
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
ESTEK	Efficiency System Technology, Inc.
FAR	Federal Acquisition Regulation
JCC-I/A	Joint Contracting Command–Iraq/Afghanistan
Knowlogy	Knowlogy Corporation
Pioneer	Pioneer Iraqi General Trading Company
SIGIR	Special Inspector General for Iraq Reconstruction
Unitrans	Unitrans International Corporation

## **Appendix H—Audit Team Members**

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This report was prepared and the audit conducted under the direction of Glenn Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the audit and contributed to the report include:

Allan J. Jones

Richard Kusman

J.J. Marzullo

Robin McCoy

Tinh Nguyen

Robin L. Rowan

James Shafer



# Appendix I—DCMA's Management Comments

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**DEFENSE CONTRACT MANAGEMENT AGENCY**  
3901 A AVENUE, BUILDING 10500  
FORT LEE, VIRGINIA 23801-1809

JUL 27 2011

MEMORANDUM FOR: ASSISTANT INSPECTOR GENERAL FOR AUDITS, OFFICE OF  
THE SPECIAL INSPECTOR GENERAL FOR IRAQ  
RECONSTRUCTION

SUBJECT: Comments to Official Draft Report: 11-022 entitled "Poor Government Oversight of  
Anham and Its Subcontracting Procedures Allowed Questionable Costs to Go  
Undetected", dated July 13, 2011

Reference: SIGIR Official Draft Report, 11-022

We have attached the Headquarters, Defense Contract Management Agency's comments  
as requested in the subject draft report.

Point of contact for this audit is Ms. Jean Labadini, Director, Contractor Purchasing  
System Review (CPSR) Team at phone number 602-594-7877 or email address  
[Jean.Labadini@dcma.mil](mailto:Jean.Labadini@dcma.mil).

Thank you for the opportunity to comment on the audit.

  
TIMOTHY P. CALLAHAN  
Executive Director  
Contracts

Attachment:  
As stated

**Recommendations:**

SIGIR recommends that the Office of the Secretary of Defense change its guidance to contracting officers to give them responsibility, in cooperation with DCAA, for reviewing the reasonableness of prices charged to the government.

SIGIR recommends that the Commander, CENTCOM Joint Theater Support Contracting Command take the following actions:

1. Determine whether Anham and its subcontractors on this contract are “affiliates” as defined by the FAR.
2. Review all vouchers submitted under this contract to ensure that appropriate pricing analysis was conducted and that prices are fair and reasonable.
3. Initiate a systematic review of billing practices on all Anham contracts in Iraq and Afghanistan.

SIGIR recommends that the Director, Defense Contract Management Agency conduct a new contractor purchasing system review on Anham.

Response: DCMA accepts the recommendation to conduct a new contractor purchasing system review on Anham. This review will be scheduled in FY12.

## Appendix J—CENTCOM'S Management Comments



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**HEADQUARTERS**  
CENTCOM JOINT THEATER SUPPORT CONTRACTING COMMAND  
CAMP AS SAYLIYAH, QATAR  
APO AE 09898



C-JTSCC / CoS


27 Jul 2011

### MEMORANDUM FOR RECORD

SUBJECT: CENTCOM TASKER; USCC1119405123, SIGIR DRAFT 11-022

1. CENTCOM IG requested that C-JTSCC review the SIGIR draft 11-022, "Poor Government Oversight of Anham and its Subcontractors Procedures Allowed Questionable Costs to go Undetected," and provide management comments for SIGIR to consider in preparing the final report and provide responses to recommendations found on the page 27 of the draft report.
2. The draft report was reviewed and C-JTSCC's comments are provided in enclosure.
3. POC for this memorandum is LT Ifedayo O. Lofinmakin,  
[ifedayo.o.lofinmakin@ccc.centcom.mil](mailto:ifedayo.o.lofinmakin@ccc.centcom.mil), DSN 318-432-6541.

Encl  
Responses to draft

  
HARRY T. THETFORD  
CAPT, SC, USN  
Chief of Staff

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**HEADQUARTERS**  
CENTCOM JOINT THEATER SUPPORT CONTRACTING COMMAND  
CAMP AS SAYLIYAH, QATAR  
APO AE 09556



**SUBJECT: CENTCOM TASKER; USSC1119405123, SIGIR DRAFT 11-022**

**SIGIR 11-022, Poor Government Oversight of Anham and Its Subcontracting Procedures Allowed Questionable Cost to go Undetected**

**SIGIR Recommendations, Page 27:**

SIGIR recommends that the Office of Secretary of Defense change its guidance to contracting officers to give them responsibility, in cooperation with DCAA, for reviewing the reasonableness of prices charged to the government.

SIGIR recommends that the Commander, CENTCOM Joint Theater Support Contracting Command take the following actions:

1. Determine whether Anham and its subcontractors on this contract are "affiliates" as defined by the FAR.
2. Review all vouchers submitted under this contract to ensure that appropriate pricing analysis was conducted and that prices are fair and reasonable.
3. Initiate a systematic review of billing practices on all Anham contracts in Iraq and Afghanistan.

SIGIR recommends that the Director, Defense Contract Management Agency conduct a new contractor purchasing system review on Anham.

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**SCO-I Response to C-JTSCC:**

**Concur with recommendation to the Office of the Secretary of Defense.**

**Partially concur with recommendation 1 to C-JTSCC.** While C-JTSCC does not disagree with the affiliation determination comment, we believe DCMA would be the more appropriate agency to make the determination. DCMA was delegated the responsibility for reviewing and approving the contractor's purchasing system. FAR part 44.303 states that agencies reviewing a contractor's purchasing system are to pay close attention to affiliates that have close working arrangements with the contractor. The report itself (pages 10-13) cites DCMA as being negligent in their review and goes on to state that DCMA has changed their review process such that the contractor would not be approved under the current system. Based on these findings, it is not unreasonable to place the task of determining the affiliate status of subcontractors on DCMA.

UNCLASSIFIED//FOUO

## **Appendix K—SIGIR Mission and Contact Information**

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<b>SIGIR’s Mission</b>	<p>Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:</p> <ul style="list-style-type: none"><li>• oversight and review through comprehensive audits, inspections, and investigations</li><li>• advice and recommendations on policies to promote economy, efficiency, and effectiveness</li><li>• deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse</li><li>• information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports</li></ul>
<b>Obtaining Copies of SIGIR Reports and Testimonies</b>	<p>To obtain copies of SIGIR documents at no cost, go to SIGIR’s Web site (<a href="http://www.sigir.mil">www.sigir.mil</a>).</p>
<b>To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs</b>	<p>Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:</p> <ul style="list-style-type: none"><li>• Web: <a href="http://www.sigir.mil/submit_fraud.html">www.sigir.mil/submit_fraud.html</a></li><li>• Phone: 703-602-4063</li><li>• Toll Free: 866-301-2003</li></ul>
<b>Congressional Affairs</b>	<p>Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 2530 Crystal Drive Arlington, VA 22202-3940 Phone: 703-428-1059 Email: <a href="mailto:hillel.weinberg@sigir.mil">hillel.weinberg@sigir.mil</a></p>
<b>Public Affairs</b>	<p>Deborah Horan Office of Public Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 2530 Crystal Drive Arlington, VA 22202-3940 Phone: 703-428-1217 Fax: 703-428-0817 Email: <a href="mailto:PublicAffairs@sigir.mil">PublicAffairs@sigir.mil</a></p>

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